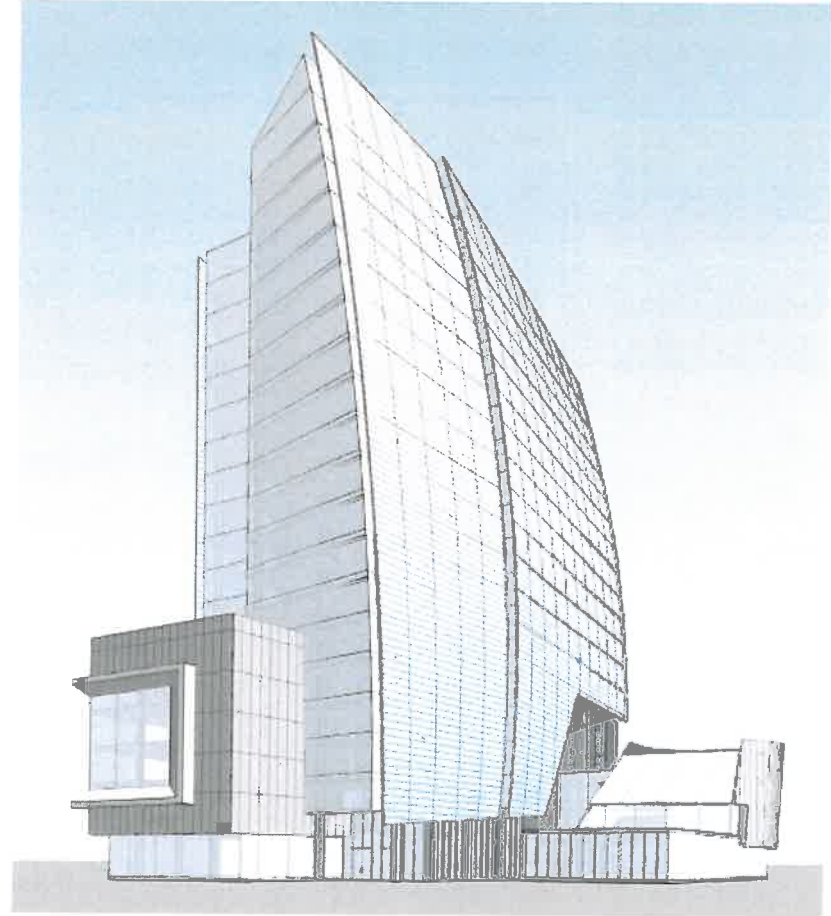


A *new* Civic Center

- Saves taxpayer money
- Funds residents' priorities
- Reduces financial risks
- Puts San Diegans to work

June 24, 2010



The Problem and its Impacts

**City-owned buildings are functionally obsolete,
at or well beyond the end of their useful lives**

- \$37 million in repairs needed in next 10 years
- Exposure to unacceptable latent risks like catastrophic system failure
- Creates potential health and safety risks to employees and the public

The Problem and its Impacts

City workforce is inefficiently deployed

- City employees scattered downtown, impairing effectiveness
- Current buildings are highly inefficient
- Operational costs unnecessarily high



The Problem and its Impacts

Long-term below-market leases will expire in 2014

- City occupancy costs subject to the fluctuations of the commercial office market
- Creates lack of predictability in budgeting
- Creates unacceptable financial risks

Something Must Be Done and Done Now

The Goal

- Adopt a new paradigm of City efficiency
 - Reduce occupancy costs
 - Increase City workforce productivity
 - Improve levels of service to citizens
 - Reduce financial risks
- Trade a rent payment for mortgage payment

A long-term solution that saves money from Day One

The Options

- 8 alternatives to a new Civic Center evaluated
 - All cost more than a new Civic Center
 - Conclusion validated by Ernst & Young and Jones Lang LaSalle
 - After 2 years of analysis, 2 options remain
 - Build a new Civic Center now, or
 - Build it later (“Hold Steady” option)
 - ***There is no 3rd option***
-

What is the “Hold Steady” alternative?

- Spend \$37 million to keep current buildings minimally habitable for 10 more years
 - “Bare bones” strategy
 - Does not eliminate all latent risk in aging mechanical and life-safety systems
 - No seismic upgrade
- Renew City Leases until new Civic Center is completed at future lease rates, which are based on proposals from current Landlords
- Wait 10 years to build a new Civic Center identical to the one currently proposed, though at a higher cost

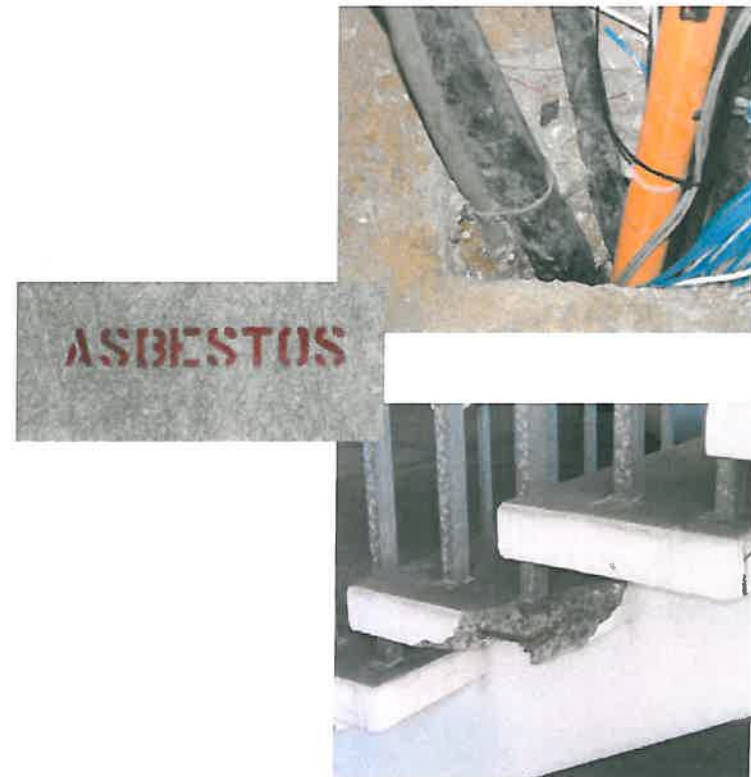
What is the “Hold Steady” alternative?

- To evaluate CAB, COB and Golden Hall, City retained AECOM, a global leader in planning, design, building, engineering and transportation
- AECOM conducted a facility condition assessment in May, 2008 and a follow-up assessment in April 2009. Its findings:
 - Building systems are beyond what can be maintained on a daily basis without near-term replacement.
 - The minimum expenditure approach in maintaining these buildings will force them to be demolished at the end of 10 years.

\$37 Million to maintain barely habitable status for 10 years

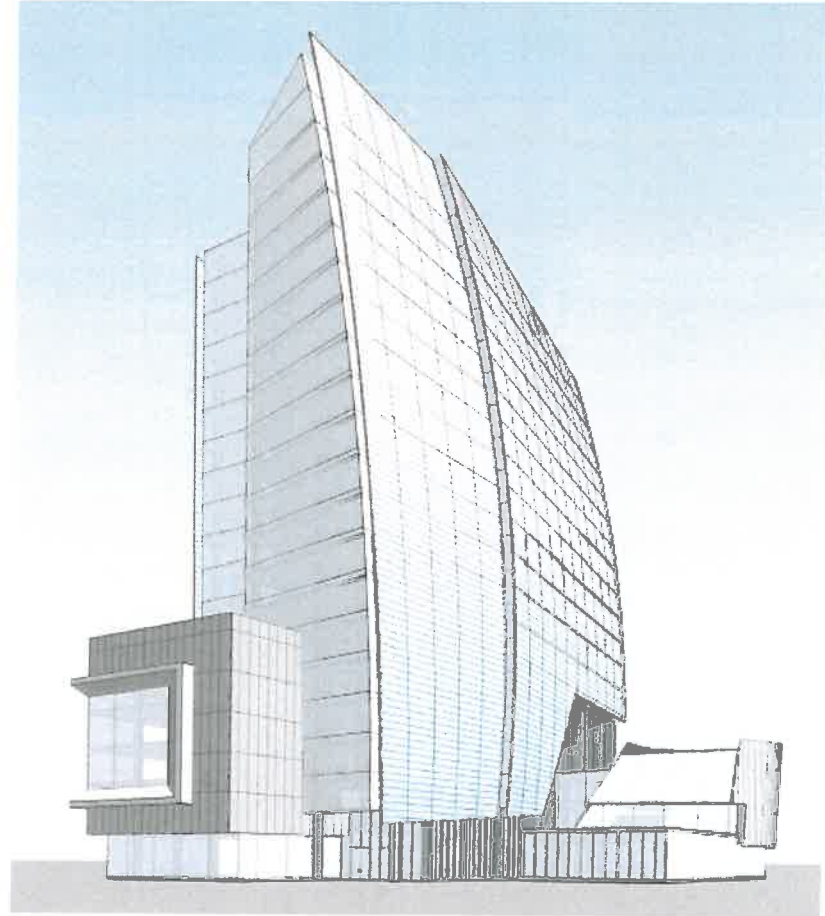
Hold Steady: \$37 million in band-aid repairs

Deficiency	Cost (in millions)
Mechanical repairs	\$8.7
Electrical repairs	\$7.9
Sprinklers and fire code compliance	\$9.3
Interior repairs	\$4.1
Exterior repairs	\$0.8
Plumbing repairs	\$2.3
Roofing repairs	\$2.2
Miscellaneous repairs	\$2.0
Total	\$37.3



New Civic Center is the Lowest Cost Solution

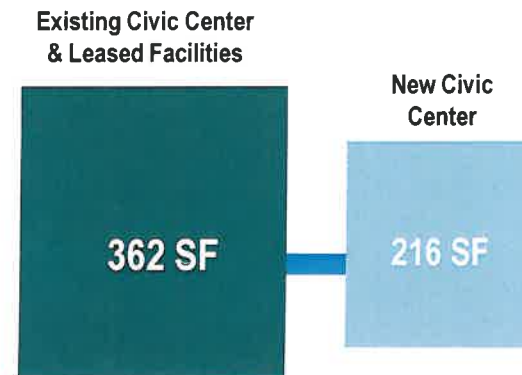
- 19-story Civic Center totaling 576,000 square feet
- One-stop shop providing citizens with direct access to City services
- 400-seat Council chambers on 2nd floor, 43% increase in seats
- New 1¼-acre public plaza
- LEED® Platinum green design
- Over 2,300 construction jobs for San Diegans



New Civic Center is the Lowest Cost Solution

Reduces Risk

- Avoids spending \$37 million on “band-aid” repairs
- Eliminates leasing costs
- Eliminates large financial risks
- In addition to savings, frees up City land for future redevelopment and revenue opportunities
- Creates **operational efficiency**
 - Current buildings (owned and leased): 362 square feet per employee
 - New Civic Center: 216 square feet per employee
 - 40% reduction



New Civic Center is the Lowest Cost Solution

Saves Taxpayer Money over “Hold Steady”

10 Years	(\$23,912,000)
20 Years	(\$41,334,000)
50 Years	(\$232,199,000)

New Civic Center is the Lowest Cost Solution

Saves Taxpayer Money over “Hold Steady”

Analysis Year		Annual (Savings) vs. Hold Steady	Cumulative (Savings) vs. Hold Steady
1	2010	\$0	\$0
2	2011	(\$7,504,827)	(\$7,504,827)
3	2012	(\$188,591)	(\$7,693,418)
4	2013	(\$363,269)	(\$8,056,687)
5	2014	(\$180,193)	(\$8,236,880)
6	2015	(\$177,501)	(\$8,414,381)
7	2016	(\$416,552)	(\$8,830,933)
8	2017	(\$618,118)	(\$9,449,051)
9	2018	(\$8,099,402)	(\$17,548,453)
10	2019	(\$6,363,304)	(\$23,911,757)
20	2029	(\$3,936,229)	(\$41,334,132)
50	2059	\$0	(\$232,199,304)

City Council Requirements from ENA

- Lock in Savings—Save taxpayer money from the first year over the “Hold Steady” alternative
- End the City’s reliance on leased office space
- Consolidate City office space to produce efficiency
- Enhance public access to City services
- Enhance public access to public gathering spaces

City Council Requirements from ENA

- Create a state-of-the-art example of environmentally friendly construction
 - LEED® Silver or better
 - Free of asbestos and other materials that harm the public and workforce
 - Meet or exceed all fire, safety and ADA requirements
 - Retain City assets by retaining ownership of the City Operations Building, Parkade and Golden Hall parcels
 - Preserve operations of the Civic Theatre
 - ***Ensure that Developer bears financial risk for cost overruns and construction delays***
-

A Clear Choice for the City

- The New Civic Center Proposal and Contractual Terms meet all Council requirements
- The “Hold Steady” Alternative does not

“Locking In” Savings

- Savings are “Locked In” because the Contract Terms establish an all-in construction cost of \$293,500,000
- During pre-development, the New Civic Center will be designed and a guaranteed maximum price contract which must be less than the Project Cost Cap
- Developer and general contractor guarantee price

\$293,500,000

Putting the Savings to Work by Funding Citizen Priorities

Savings over “Hold Steady” can fund community services and infrastructure projects

Resident-identified essential City services:

Police services

Fire services

Emergency medical services

Additional resident-identified priorities:

Sidewalk repairs

Recreation programs

Library hours

Arts and cultural programs

Graffiti removal

This project will let the City spend more money on services and less on rent and repairs

Improving Public Benefits

- Provide citizens a “One-Stop Shop” with convenient access to City services
- Create a new public gathering space
- Preserve the Civic Theatre and enhance the experience of its patrons
- Revitalize a blighted area of Downtown

Reducing Taxpayer Risks

Under “Hold Steady,” taxpayers are at risk for catastrophic system failures that could make buildings uninhabitable:

- Roof—beyond useful life
- Electrical—beyond useful life
- HVAC—beyond useful life
- Structural—seismic upgrades, too costly to include in “Hold Steady”

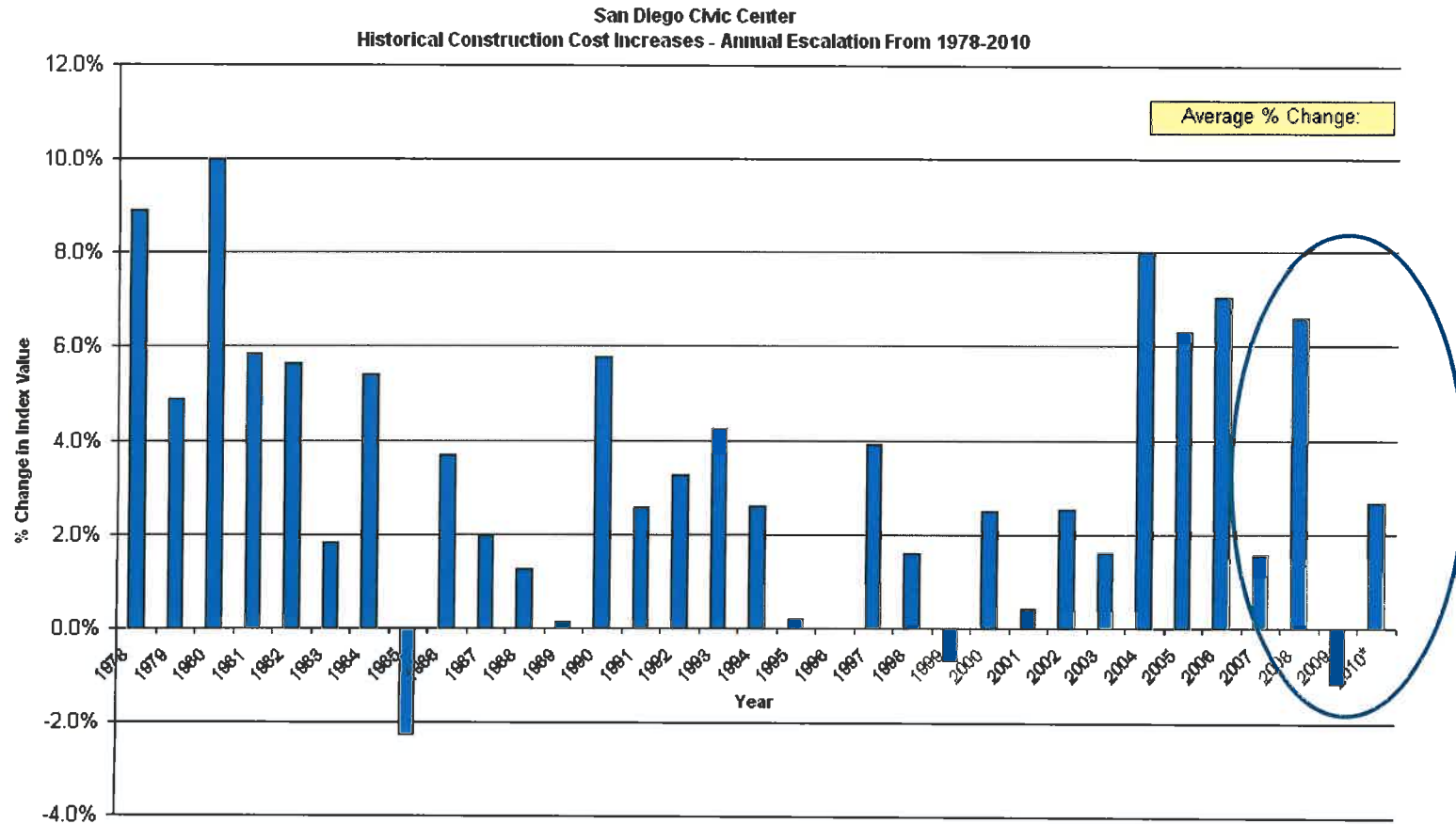
Putting San Diegans to Work

30 percent of San Diego's construction workers are currently unemployed

- Over 2,300 construction jobs will be created.
- Commitment to local hires
 - Developer is required to hire at least 70% of the construction work force from San Diego
- Small business participation goals
 - 20% to 30%
 - Budget includes \$300,000 to encourage and enhance minority and disadvantaged participation

Why Now?

Construction costs are low

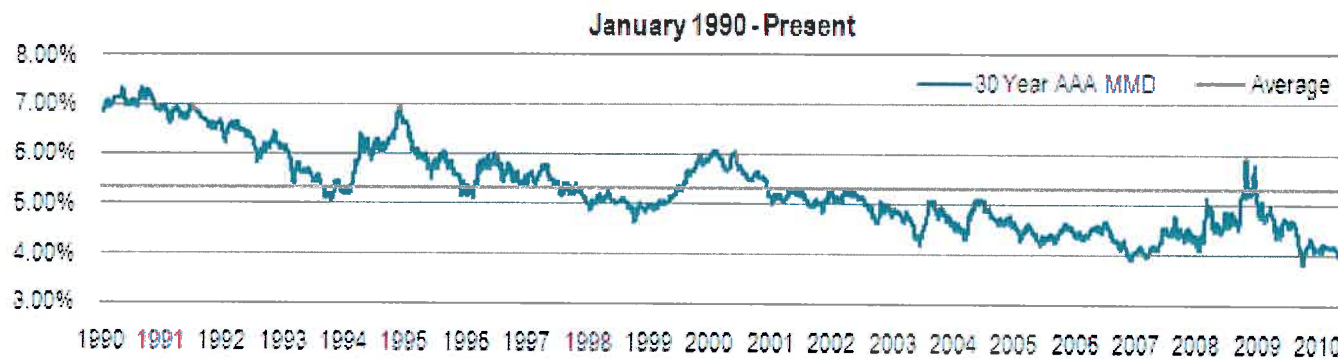


* Represents percentage change from December 2009 to June 2010.
Source: The McGraw-Hill Companies / ENR; Building Cost Index for Los Angeles

Why Now?

- Long-term tax-exempt funding for public-purpose capital projects is highly cost effective
- Municipal interest rates are at historical lows

Historical Review of 30-Year municipal interest rates



Source: Bloomberg

Contract Terms

- Creates a process that ensures City cost and schedule protection
 - Protects City, before bonds are sold and construction commences, with “exit ramps”
 - City may terminate if Guaranteed Maximum Price contracts exceed cost cap
 - City may terminate if unable to achieve acceptable financing
 - Places all cost and schedule risk on Developer, following commencement of construction
 - Ensures liquidated damages for delay
-

The Schedule

- November 2010 Voters approve ballot measure
- December 2010 Commence design
- November 2011 Obtain GMP
- December 2011 City approves financing and issues bonds
- January 2012 Commence construction
- July 2014 Construction complete and move in

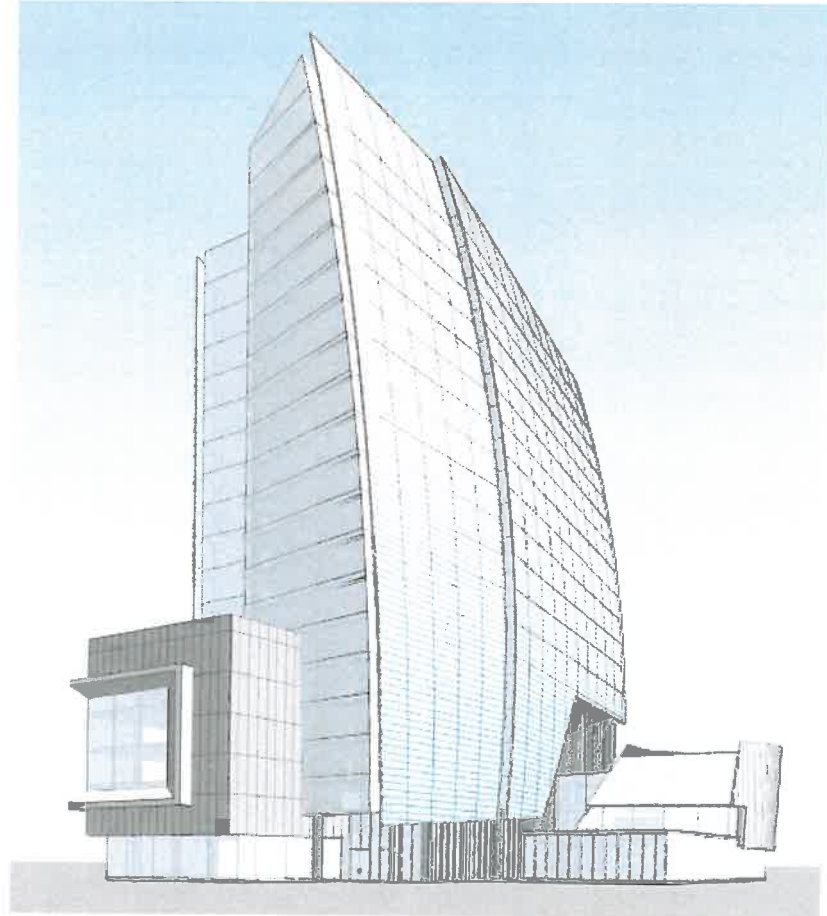
The Mayor Recommends that the Decision be made by the Voters

Shall the City redevelop San Diego's Civic Center only if:

- 1) The project saves at least \$40 million compared to the cost of repairs and rent over the next 20 years;
- 2) Eliminates the need for rented space;
- 3) The contract provides that City is not responsible for cost overruns;
- 4) The contract provides that at least 70 percent of the new construction jobs go to residents of San Diego; and
- 5) \$1 million of savings per year for the first 10 years are committed to road maintenance and repairs, public safety, and community services.

Public Vote

- Last October, Council gave us two options:
 - Citizen oversight committee; or
 - Public vote
- The citizens have borne the burden; the citizens should make the decision
- Let the citizens decide



Conclusion

- City has a significant and expensive problem
- Only 2 viable options
- Building now is cheaper than building later
- Money not spent on rent and repairs can be used for citizen services
- Voters should have the right to decide on the proposal